

# South Carolina Board of Economic Advisors

## Statement of Estimated State Revenue Impact

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**Date:** May 29, 2008 (As amended May 27, 2008 by the Senate Finance Committee)  
**Bill Number:** H.B. 4355  
**Authors:** Harrell; Kirsh; Bales; Lowe; E.H. Pitts, *et. al.*

### Committee Requesting Impact: Senate

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#### Bill Summary

A bill to amend Sections 4-10-20, 4-10-350, 4-10-580, and 4-37-30, all as amended, of the Code of Laws of South Carolina, 1976, relating to the local option sales tax, the capital project sales tax, the personal property tax exemption sales tax, and the transportation infrastructure sales tax, so as to exempt from these taxes unprepared food items eligible for purchase with United States Department of Agriculture food coupons and make this exemption apply prospectively; and to amend Section 12-36-2120, as amended, relating to sales and use tax exemptions, so as to allow a county governing board by ordinance to extend the state sales tax exemption for food items to a locally imposed sales and use tax.

#### REVENUE IMPACT <sup>1/</sup>

This bill, as amended, is not expected to affect General Fund revenue in FY2008-09. This bill would reduce local option sales and use tax revenue by an estimated \$39,318,958 in FY2008-09 if all of the local governing bodies of the counties adopt an ordinance exempting unprepared food from local sales and use tax.

#### Explanation of Amendment (May 27, 2008) – By the Senate Finance Committee

This amendment would strike all after the enacting words, restore the original language of the bill as filed January 8, 2008 (see explanation below), and add the following amended sections to the bill:

**Section 6.** This section would allow any county that wishes to reimpose a local option sales tax in effect on or before June 1, 2008, and in existence at the time a referendum is held, to continue the local option sales tax without interruption and without exempting unprepared food from local sales and use tax. This amendment would not allow the exemption of grocery store food to be mandatory and reduce the local sales tax base for counties.

**Section 7.** This section adds the language contained in S.B.1256 to amend Section 4-10-330 to add the acquisition of interests in real property, including the purchase of development rights, for economic development, conservation, blight remediation, or military base protection to the definition of what constitutes the types of projects on which the capital project sales tax can be used. Since this amendment just adds an additional use of capital project sales tax revenue by adding to the definition of what constitutes the types of projects the tax may be used for under existing laws, this amendment is not expected to have any negative impact on State or local revenues.

**Section 8.** This section adds the language contained in S.B. 524 to amend Section 6-1-760 to allow a county or municipality to pledge revenue generated from the local accommodations tax, the local hospitality tax, and the local share of the state accommodations tax as security for issuing bonds and to use the proceeds from these revenue sources to retire outstanding bonds. Currently, pursuant to Article X, Section 14(10) of the Constitution of this State, counties and municipalities may issue bonds and use the proceeds for tourism-related purposes enumerated in Section 6-1-530. This bill would allow counties and municipalities to use bond proceeds for "cultural" uses such as the arts, historical

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preservation, museums, and festivals, as well as, "hospitality" uses including areas directly involved in the service segment of the travel and tourism industry such as lodging facilities, restaurants, attractions, recreational amenities, transportation facilities and services, and travel information and promotion entities, as described in Section 6-4-5. According to the Department of Revenue, revenue from the two-cent state accommodations tax amounted to \$42,771,165 in FY2006-07. The Office of Research and Statistics reports in the "Local Government Finance Report" that counties and municipalities collected \$38,496,510 from the local accommodations tax and \$114,849,918 from the local hospitality tax in FY2005-06. Seventy percent of the local accommodations tax revenue, or \$26,947,557, may be pledged as security for issuing bonds and to use the proceeds from this revenue source to retire outstanding bonds. This bill would allow counties and municipalities to pledge \$184,568,640 as security against the issuance of bonds to fund local tourism, cultural, and hospitality projects in their communities. Because this section would allow local authorities to decide how to allocate locally-generated tax revenue, it is not expected to impact state General Fund revenue in FY2008-09.

**Section 9.** This section adds the language contained in S.B. 524 to amend 6-4-10(3) to require that thirty percent of local accommodation tax revenue must be allocated to a special fund and used only for advertising and promotion of tourism to develop and increase tourist attendance through the generation of publicity. The fees allocated pursuant to Section 6-4-10(3) must not be used to pledge as security for bonds and to retire bonds. The Office of Research and Statistics reports in the "Local Government Finance Report" that counties and municipalities collected \$38,496,510 from the local accommodations tax in FY2005-06. Thirty percent of the local accommodations tax revenue, or \$11,548,953, may only be used for advertising and the promotion of tourism. Because this section would allow local authorities to decide how to allocate locally-generated tax revenue, it is not expected to impact state General Fund revenue in FY2008-09.

**Section 10.** This act takes effect upon approval by the Governor, but the amendments contained in Sections 1 through 4 that would exempt unprepared food items eligible for purchase with United States Department of Agriculture food coupons from the local option sales tax apply with respect to local sales and use taxes imposed or reimposed on or after that date.

#### **Explanation of Amendment (April 23, 2008) – By the House Ways & Means Committee**

This amendment would add Sections 6-1-580 and 6-1-780 to include a discount allowance for timely filing of local option sales taxes to the Department of Revenue. The discount allowances mirror the current discount language contained in Section 12-36-2610 for filers of state sales and use taxes. If the sales tax return is remitted before the due date on the final return and the sales taxes on the return are less than \$100, the discount allowance that may be applied is three percent. Also, if the sales taxes on the return are \$100 or more, the discount allowance that may be applied is two percent. The discount allowance permitted a single taxpayer may not exceed \$3,000 during any one fiscal year. Based on information provided by the Department of Revenue, nearly \$23,000,000 in discount allowances were applied to total sales and use tax collections of over \$3,276,000,000 in FY2006-07. This yields an effective discount rate of less than one percentage point. Based on the Board of Economic Advisor's sales and use tax forecast made April 7, 2008 and applying the effective discount rate of less than one percent to an estimated \$386,461,330 of local option sales taxes (\$425,780,288 of local option sales taxes less \$39,318,958 of local option sales tax on grocery store food purchases), yields a reduction of local option sales and use tax revenue of an estimated \$2,705,229 in FY2008-09. Since the effective date of this amendment begins January 1, 2009 for taxable periods beginning after December 2008, the discount allowance for timely filing of local option sales and use tax returns would reduce local option sales and use tax revenue by one-half, or an estimated \$1,352,615 in FY2008-09.

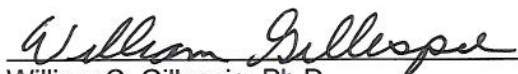
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### Explanation of Bill filed January 8, 2008

This bill would amend Sections 4-10-20 (local option sales tax for county and municipality residential property tax relief), 4-10-350(B) (local option sales tax for capital projects), 4-10-580(B) (personal property tax relief on private passenger motor vehicles, motorcycles, aircraft, boats, and boat motors), and 4-37-30(A)(9) (local option sales tax for transportation projects) to exempt unprepared food items eligible for purchase with United States Department of Agriculture food coupons from the local option sales tax. This bill also amends Section 12-36-2120(75) to allow a county to exempt grocery store food from local sales and use tax only by ordinance of the governing body of the county. All forty-six counties exempt food purchased by individuals with food stamps from the local option sales tax, and only Clarendon County applies a sales tax to food items purchased at the local level for its local option school sales tax. Currently, nine counties have enacted more than one local option sales tax, and the personal property tax relief sales tax is currently not in use in any county in the state. Based upon data from the U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditures Survey*, and the South Carolina Department of Revenue, food purchased at grocery stores accounts for an estimated eight percent of total consumer spending. In FY2006-07, local sales and use tax revenue from the local option property tax relief sales tax, the local option capital projects sales tax, and the local option transportation projects sales tax amounted to \$425,780,288. If all of the local governing bodies of the counties adopt a sales and use tax exemption on food ordinance, then after adjusting this figure for inflation and multiplying the resultant by eight percent yields a reduction of local option sales and use tax revenue of an estimated \$39,318,958 in FY2008-09.

  
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<sup>11</sup> This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.